

Idaho Economic Forecast

C.L. "Butch" Otter, Governor

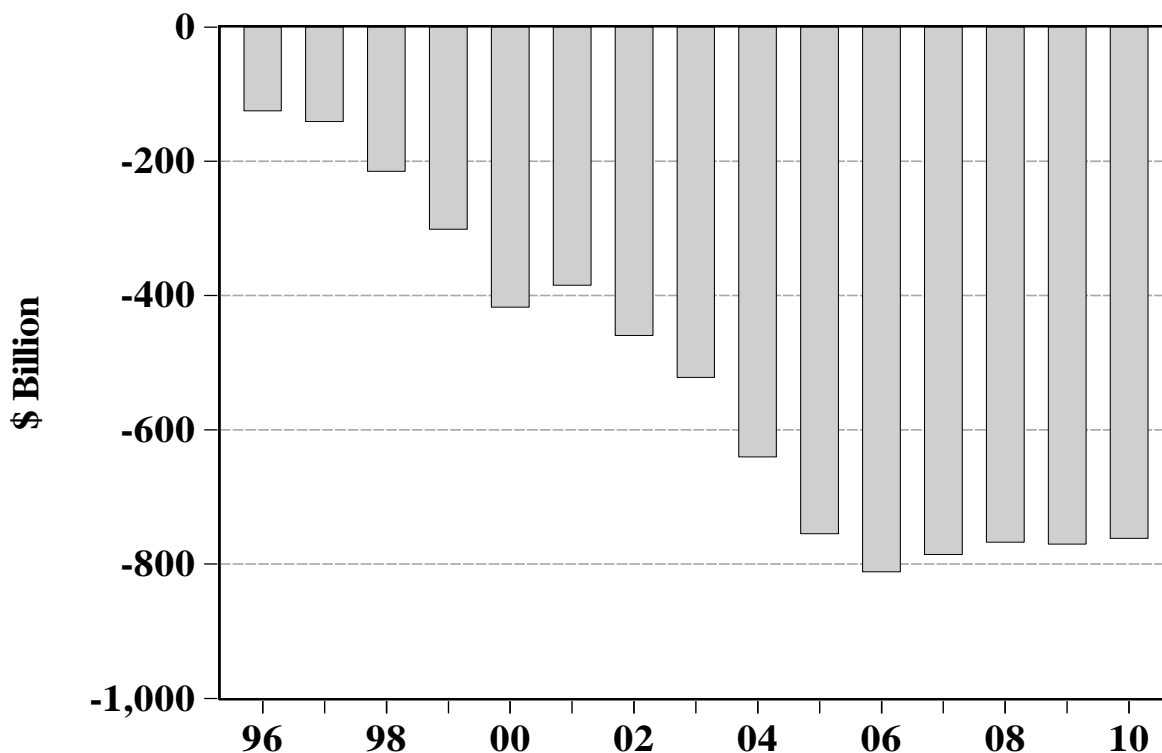
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- Forecast 2007-2010
- House Prices and Subprime Mortgage Delinquencies
- Alternative Forecasts

U.S. Current Account Deficit



Source: Global Insight

**IDAHO
ECONOMIC
FORECAST
2007 - 2010**

State of Idaho
C.L. “BUTCH” OTTER
Governor

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PREFACE

Idaho's economy continues to grow and evolve as it enters the 21st Century. The 1980s was a decade of stop-and-start economic performance. However, it also ushered in one of the longest expansions in the state's history. Since 1987, nonfarm employment has expanded in every year and has consistently placed Idaho among the top ten fastest growing states in the nation. The 1990s saw a flood of new residents move into the state, causing the population to expand by an astounding 29% from 1990 to 2000. Over this period Idaho personal income nearly doubled. Much of the current expansion results from ongoing structural changes in Idaho's economy.

One of the biggest changes is the rise of the state's high-technology sector. Virtually nonexistent in the 1970s, this sector achieved critical mass in the 1990s to become the state's largest manufacturing employer. The growth of industry giants, such as Micron Technology and Hewlett-Packard, as well as the emergence and expansion of smaller companies, pushed payrolls above even the most optimistic forecasts made in the 1980s. The state's trade sector has also been going through a transformation. The last decade witnessed an influx of national "big box" merchandisers. During this same time, Idaho merchants successfully reached beyond the state's borders. Several regional shopping centers were established that serve locals, as well as attract shoppers from other states and Canada. Visitors fueled the surge in tourism that also benefited trade. Like its national counterpart, the service sector accounts for most of the nonfarm jobs in Idaho. Tourism has also been a boon to the service industry. While traditional factors, such as increasing discretionary income, continue to fuel the demand for services, other influences have emerged. For example, the use of temporary employees in manufacturing has bolstered business services employment. Idaho's outstanding work force has been a major factor in attracting call centers, back office operations, and credit card companies.

While many changes are taking place today, traditional resource industries still play a major role in Idaho's economy. Indeed, the state's mining, agriculture, and timber sectors all experienced lulls in the late 1990s. While displaying more resilience to downturns than in the past, these industries are not totally immune from business-cycle effects. This continuing dependence on natural resources will bring a host of challenges to Idaho.

Other factors that are external to the state's economy will also present challenges to decision makers. Public policy decisions made in Washington, D.C. affect resource industry and federal installations such as the Idaho National Laboratory and the Mountain Home Air Force Base. Finding balanced and acceptable solutions to endangered and threatened species issues and timber supply issues are of major economic significance.

In order to deal effectively with these challenges, public and private decisions need to be made with a thorough understanding of the structure of the state's economy. It is to this end that the *Idaho Economic Forecast* is directed.

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INTRODUCTION

The national forecast presented in this publication is the July 2007 Global Insight baseline forecast of the U.S. economy. The previous *Idaho Economic Forecast* is based on the April 2007 Global Insight baseline national forecast.

The U.S. current account deficit is expected to end its freefall and stabilize over the forecast period. As the cover chart shows, in the decade spanning 1996 to 2006 the U.S. current account deficit more than quadrupled as a result of the lopsided trade situation. However, exports should gain ground on imports as the economy slows and the dollar declines. As a result, the current account trade deficit will hover between \$800 billion and \$750 billion over the next few years.

FEATURE

The recent sharp increase in subprime mortgage delinquencies has captured the public spotlight and led analysts to search for the factors that are likely to have contributed to the problem. Along with the usual suspects, it also is important to remember that the delinquencies have occurred during a time of seismic shifts in the patterns of house-price appreciation, shifts that were unprecedented in terms of their size and suddenness and that varied widely across metropolitan areas. The feature article explores how the pace of and change in house-price appreciation can affect the incentives and opportunities for borrowers in a market to avoid delinquencies and foreclosures. The authors of this article are Mark Doms, Frederick Furlong, and John Krainer.

THE FORECAST

Alternative assumptions concerning future movements of key economic variables can lead to major variations in national and/or regional outlooks. Global Insight examines the effects of different economic scenarios, including the potential impacts of international recessions, higher inflation, and future Federal Reserve Board decisions. Alternative Idaho economic forecasts were developed under different policy and growth scenarios at the national level. These forecasts are included in this report.

Historical and forecast data for Idaho and the U.S. are presented in the tables in the middle section of this report. Detail is provided for every year from 1993 to 2010 and for every quarter from 2004 through 2009. The solution of the Idaho Economic Model (IEM) for this forecast begins with the second quarter of 2007.

Descriptions of the Global Insight U.S. Macroeconomic Model and the IEM are provided in the Appendix. Equations of the IEM and variable definitions are listed in the last pages of this publication.

CHANGES

The historical employment data used in this forecast was provided by the Idaho Department of Commerce and Labor and was seasonally adjusted by the Idaho Division of Financial Management (DFM). These data include final employment numbers through 2006 and a preliminary estimate for the first quarter of 2007. These data show Idaho nonfarm employment growth accelerated to a 4.4% annual pace in the first quarter of this year after advancing at a 2.0% clip in last year's terminal quarter. This employment jump was larger than the 2.0% gain forecast in the April 2007 *Idaho Economic Forecast*. As a result, Idaho nonfarm employment was 652,217 in the first quarter of 2007, which is 3,424 more than the previous estimate.

The tables in this forecast include the U.S. Bureau of Economic Analysis' (BEA) June 2007 estimates of Idaho quarterly personal income through the first quarter of 2007. The quarterly estimates for 2006 were

revised since the previous release. The BEA will publish its next round of Idaho quarterly personal income estimates on September 20, 2007. These data will be incorporated into the October 2007 *Idaho Economic Forecast*.

The *Idaho Economic Forecast* is available on the Internet at http://dfm.idaho.gov/Publications/Econ_Publications.html. Readers with any questions should contact Derek Santos at (208) 854-3070 or at dsantos@dfm.idaho.gov.

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